

TEACHERS' RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Audit Charter Revision

ITEM NUMBER: 10

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: July 12, 2001

INFORMATION:       

PRESENTER(S): Way Lee

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In accordance with the New Standards for the Professional Practice of Internal Auditing, the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the Budgets and Audits Committee of the Teachers' Retirement Board.

The current charter as adopted by the Teachers' Retirement Board on April 11, 1991, per Resolution No. 91-05 is now outdated. The current charter does not reflect the binding relationship among the audit committee, senior management and the internal audit function. Also, the current charter is not in sync with the current internal audit practice, nor is it consistent with the New Standards for the Professional Practice of Internal Auditing. Therefore, a revision of the audit charter is needed at this time.

The Office of Audits is committed to periodically update the audit charter so that it reflects the current professional practice of internal auditing.

Staff recommends that the Budgets and Audits Committee approve and the Teachers' Retirement Board adopt the revised Office of Audits Charter, dated July 12, 2001, at Attachment 1.

## **STATE TEACHERS' RETIREMENT SYSTEM OFFICE OF AUDITS CHARTER**

### **Office of Audits Mission**

The Office of Audits assists CalSTRS management and the Budgets and Audits Committee in accomplishing their goals and objectives by performing assurance and consulting services that add value and improve CalSTRS' operations.

### **Commitment**

To meet the objectives of our mission, the Office of Audits is committed to:

- Providing assurance that CalSTRS' assets are safeguarded;
- Providing assurance that financial and non-financial records are reliable;
- Providing assurance that CalSTRS complies with applicable laws, regulations, and management policies;
- Promoting operational efficiency and effectiveness;
- Maintaining an internal auditing program at CalSTRS that is continuously improving its products and services;
- Meeting or exceeding the expectations of our partners and customers; and
- Promoting the full understanding of sound internal control and risk management.

To achieve our objectives, the Office of Audits will:

- Conduct analyses, reviews, audits, technical supports and other consulting activities of the various CalSTRS internal and external operations;
- Work with audit clients to finalize recommendations for improvements;
- Provide job opportunity for professional development and career advancement of the Office of Audits staff, to the extent possible and practical and in the best interests of the employees and CalSTRS; and
- Network with internal audit organizations of other public pension systems to learn and exchange best practices information.

The Office of Audits will perform reviews with emphasis on the promotion of cost effective internal controls and suggest improvements that will lead to operational effectiveness and efficiency. Also, upon the request of the Budgets and Audits Committee and management, the Office of Audits will:

- Perform special reviews and analyses, audits or studies; and
- Participate, as appropriate, in the various phases of new project development and implementation.

## **Authority**

Section 22208 of the Education Code grants the Board the authority to delegate its responsibilities to a committee of two or more of its members to perform any act within the power of the Board itself to perform. The Board may also delegate the authority to the Chief Executive Officer to perform any such act.

The Chief Executive Officer of CalSTRS grants authority to the Office of Audits to direct a broad, comprehensive program of internal auditing within the organization. In carrying out their duties and responsibilities, members of the Office of Audits will have full, free, and unrestricted access to all CalSTRS records, personnel, and properties – including intellectual and electronic properties – required in the performance of audit assignments.

Education Code Section 22206 authorizes the Board to perform audits of any public agency. As such, the Board has exercised this right as part of the formation of the Budgets and Audits Committee. It should be noted that all acts of the Budgets and Audits Committee must be reported to the Board subject to its review and approval. By adoption of this charter, the Office of Audits is designated to conduct audits of the school districts and county offices of education by this authority, following the annual audit work plan.

## **Organizational Placement**

The Chief Auditor reports administratively to the Deputy Chief Executive Officer, Administration Branch and functionally reports to the Budgets and Audits Committee. The Chief Auditor may occasionally report to the Teachers' Retirement Board, as circumstances require the Chief Auditor to fulfill the duties of reporting and disclosure. When performing audits within the Administration Branch, the Chief Auditor reports directly to the Chief Executive Officer on audit progress and audit findings and observations. This is necessary to maintain the independence of the Office of Audits.

## **Independence**

Internal auditors must be able to perform independent and objective assurance and consulting activities. They should refrain from assessing specific operations for which they were previously responsible. Also, internal auditors shall have no direct responsibility or authority over any of the activities or operations that they have reviewed.

## **Responsibilities**

Government Code, Section 1236, states that the State agencies which have internal audit organizations shall utilize the general and specified standards of internal auditing as specified in the Institute of Internal Auditors' "Standards for the Professional Practice of Internal Auditing" (SPPIA). In carrying out their responsibilities, the Office of Audits will abide by the Code of Ethics and the New SPPIA (effective date of compliance is January 1, 2002) as established by the Institute of Internal Auditors. Additionally, the Office of Audits will consider compliance of the Omnibus Practice Advisories even though compliance to some advisories is optional.

Specific Responsibilities of the Internal Audit Office include:

- The Chief Auditor should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the Budgets and Audits Committee for review and approval. The Chief Auditor should also communicate the impact of resource limitations;
- Develop and execute a comprehensive internal audit program to evaluate the accounting and administrative controls provided over all activities of the California State Teachers' Retirement System;
- Develop and execute a comprehensive school district compliance audit program to determine if a school district is reporting employee information to CalSTRS in compliance with the Teachers' Retirement Law and to determine if the employee information reported is supported by adequate and reliable records;
- Examine the effectiveness of all levels of accounting and administrative controls over the stewardship of CalSTRS' resources and CalSTRS' compliance with established policies and procedures;
- Evaluate CalSTRS' programs to determine whether they are operating within the highest fiduciary standards and are directed toward the exclusive benefit of CalSTRS' members, retirees, and beneficiaries;
- Recommend improvement of management controls designed to safeguard resources, promote the growth of the Teachers' Retirement Fund, and ensure compliance with applicable laws and regulations;
- Review procedures and records for their adequacy to accomplish intended objectives and appraise policies and plans relating to the activity or function under review;
- Use a risk assessment process to schedule internal, field, and operational reviews of transactions, units, or program operations within CalSTRS, that will provide reasonable assurance that CalSTRS complies with the Financial Integrity and State Managers' Accountability Act of 1983, as provided in Sections 13400-13407 of the Government Code;
- Share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure adequate coverage and to minimize duplication of efforts;
- Promptly prepare reports on the results of audit examinations; including recommendations for improvement, and to present that information to management and to the Budgets and Audits Committee;

- Monitor and prepare periodic reports on the status of audit observations identified by the Office of Audits and other external auditors;
- Determine whether corrective action was taken on reported deficient conditions (determined by both internal and external auditors) and whether that action is achieving the desired results, or whether management and the Board have assumed the risk of not taking corrective action on reported observations;
- Discuss the matter of not fully implementing a corrective action with senior management when the Chief Auditor believes that senior management has accepted a level of residual risk that is unacceptable to the organization;
- Report to the Budgets and Audits Committee jointly with senior management any unresolved audit issues that the Chief Auditor believes to be unacceptable to the organization;
- Participate in the planning, design, development, and implementation phases of major information related systems to determine whether adequate controls are incorporated in the systems, thorough systems testing is performed at appropriate stages; and systems documentation is complete and accurate.
- Conduct periodic reviews of existing information technology projects (systems) and perform post implementation reviews of new systems to determine whether these systems meet their intended purposes and objectives and are accountable in cost tracking and management.
- Conduct special reviews at the request of management, the Budgets and Audits Committee, or the Board.

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Adopted by the Teachers' Retirement Board on July 12, 2001, per Resolution No.

PROPOSED  
RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

Subject: Approval of the Revised Charter for the Office of Audits  
Dated July 12, 2001

Resolution No. \_\_\_\_\_

WHEREAS, the Board is responsible for managing the Teachers' Retirement Fund, a pension fund; and

WHEREAS, the Board has reviewed the following proposed Charter for the Office of Audits; and

WHEREAS, the Board has revised the Charter of the Office of Audits; Therefore be it

RESOLVED, that the Board approve and adopt the revised Office of Audits Charter, dated July 12, 2001

Adopted by the:  
Budgets and Audits Committee

Ratified by the:  
Teachers' Retirement Board

July 12, 2001

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JAMES D. MOSMAN  
Chief Executive Officer